

Answer *three* questions. Each question is worth [20 marks].

1. Study the extracts below and answer the questions that follow.

**Extract 1**

**ASIAN AIRLINES SUFFERED A SHARP DECLINE  
IN PASSENGERS IN APRIL 2003**

	<i>Passengers carried</i>	<i>% Change (over April 2002)</i>
Cathay Pacific Airways	340 691	–66
Hong Kong Dragon Airlines	71 283	–76
Singapore Airlines	619 000	–50.5
China Southern Airlines	1 265 880	–36.5
China Eastern Airlines	744 010	–31
Korean Airlines	n/a	–7
Vietnam Airlines	200 000	–388

**Extract 2**

- ① In just two months, the Severe Acute Respiratory Syndrome, or SARS (a serious respiratory disease) resulted in deaths among airline passengers and caused a major demand side shock for the airline industry which is especially vulnerable to changes in **demand**.
- ② Before the SARS outbreak, aircraft manufacturers had been forecasting 8 % annual growth over the next decade for China's airlines. Now badly hit by SARS, several airlines have been devastated.
- ③ SARS has also affected the aircraft manufacturers. Companies have seen many orders put on hold. "This industry is a highly competitive **oligopoly** right now and it's a buyer's market," said a spokesman.
- ④ Any recovery assumes that people will be quick to get back on flights once their fear of the disease has subsided. There is almost certainly a demand, especially among business travellers, many of whom have postponed meetings with clients and associates. Other businesses that have managed without travelling in the region during the SARS crisis may have discovered that travelling is a luxury they can do without.
- ⑤ Not all the news is bad. As the fear of SARS diminishes, major airlines may not be in a position to win back some market share from their regional and international rivals. "The foreign carriers that pulled out will be much slower to come back in, and that could mean opportunities for regional carriers that are quick to move in and take the advantage."

[Source: adapted from *Far Eastern Economic Review* 5 June 2003]

(Question 1 continued)

- (a) Define the following terms indicated in bold in the text:
- (i) demand (paragraph ⑩) [2 marks]
  - (ii) PRICE ELASTICITY OF DEMAND. [2 marks]
- (b) Using an appropriate demand and supply diagram, explain the impact of the SARS virus on the airline industry in the Asia-Pacific region. [4 marks]
- (c) Using appropriate diagram(s), explain why the price elasticity of demand for travel by business travellers is likely to differ from that of tourists. [4 marks]
- (d) Using information from the text and supply and demand analysis, evaluate the likely future movements in ticket prices. [8 marks]